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SUBJECT: THE GOB'S MINING PLAN: NO "TRUE" NATIONALIZATION?

REF: LA PAZ 2780

SUMMARY

¶1. (SBU) GOB officials declared November 7 and 8 that the Morales administration will not "nationalize" the mining sector, providing assurances that the GOB has no intention of expropriating company assets. Instead, the government will reportedly concentrate on implementing a three-part vision of a "reactivated" industry centered on a more powerful state-owned firm and increased exports of value-added goods. Whether domestic and foreign investors can take the government at its word remains to be seen.

NO "TRUE" NATIONALIZATION?

¶2. (SBU) GOB officials told Econoff November 7 and 8 that the Morales administration will not "nationalize" the mining sector in the traditional or textbook sense, providing assurances that the GOB has no intention of expropriating company assets. Mining Vice Minister Alberto Echazu claimed November 8 that investors misunderstood Morales' recent announcement of "surprises" for the mining industry (reftel), explaining that changes will in no way resemble the GOB's 1952 expropriation of mineral deposits and mining operations. According to Echazu, the GOB recognizes the importance of foreign investment and has no wish to threaten multinational firms' operations. Companies that respect existing rules and regulations and pay appropriate taxes, he said, have no need to worry; officials are far more concerned about correcting the actions of firms that have violated laws and demonstrated a "lack of respect" for the Bolivian government and its constituents.

A THREE-PART VISION

13. (SBU) Echazu explained that the Morales administration will concentrate on implementing a three-part vision of a "reactivated" industry centered on a more powerful state-owned firm and increased exports of value-added goods. According to the vice minister, the GOB expects Comibol, Bolivia's state-owned mining company, to play a more prominent role in all stages of production, with its role as a mere administrative body a thing of the past. Echazu told Econoff that Comibol's new capacity would facilitate the establishment of new processing facilities, which in turn would boost exports of value-added goods and reduce dependence on raw materials exports. To complete its three-part vision, the Morales administration will seek higher tax and royalty receipts and a more equal distribution of revenues; Echazu argued that a disappointed and demanding public could be satisfied only if companies provided tangible benefits in the form of higher tax payments, more jobs for local residents, and increased individual incomes.

14. (SBU) Comibol Technical Manager Alejandro Vargas echoed Echazu's comments, adding that GOB officials knew the development of a comprehensive mining plan would be difficult. Vargas noted that Comibol lacks the technical and financial capacity to operate big projects and said the firm would start small, working up to more ambitious projects later. According to Vargas, change will be gradual, not "violent," and will occur piecemeal, as officials work through existing legislative procedures to alter the mining code and modify company practices. Much depends, he said, on how quickly the GOB completes a broad evaluation of the mining sector and its needs, as officials still lack in-depth understanding of how best to rejuvenate the industry.

COMMENT

15. (SBU) GOB officials may have made reassuring noises, but whether domestic and foreign investors can take the government at its word remains to be seen. Officials may yet renege on promises to respect foreign investment, particularly if the Morales administration decides to try to soothe social unrest and boost approval ratings by announcing another "nationalization." Recent GOB comments may have as their aim the partial alleviation of investors' fears, but the memory of past double-speak, public contradictions, and policy incoherence will likely lead investors to continue to question the GOB's true intentions.

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